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SUBJECT: EEB A/S MEETS WITH MEMBERS OF ORTEGA'S CABINET

¶1. (SBU) Summary: On February 27, A/S Sullivan met several members of Ortega's economic cabinet. Central Bank President Rosales requested USG assistance in getting better terms from the IMF during upcoming negotiations on a Poverty Reduction and Growth Facility (PRGF). MFA Vice Minister Coronel envisioned using A/S Sullivan's "Total Economic Engagement" to support GON programs to fight rural poverty and create "social transformation." Trade Minister Brenes focused on how to make CAFTA visible and tangible for the rural small and medium businesses. FM Santos expressed strong interest in continued U.S. public and private engagement in Nicaragua, and Agriculture Minister Bucardo urged that the USG expand its work in Nicaragua's cattle sector. All these meetings demonstrated members of Ortega's economic cabinet understand the important role that the USG can continue to play in Nicaragua. End Summary.

¶2. (U) On February 27, A/S Sullivan hosted a breakfast meeting with Development, Industry and Trade (MIFIC) Minister Horacio Brenes, Central Bank (BCN) President Antenor Rosales, Foreign Affairs Vice Minister (VFM) Manuel Coronel, and Advisor to the Trade Minister Orlando Solorzano. During a lunch hosted by the American Chamber of Commerce, A/S Sullivan chatted with FM Samuel Santos, and during a visit to Seminole Cattle Ranch, he met Agriculture and Forestry (MAGFOR) Minister Ariel Bucardo and Trade Minister Brenes. The meetings focused on economic cooperation and ways the USG can engage the GON to foster Nicaragua's economic growth. All Nicaraguan participants remained "on message" on the need to fight poverty and the overall tone was cordial and pragmatic in all of these meetings.

Breakfast Meeting Sets a Positive Tone

¶3. (SBU) The breakfast with Minister Brenes, VFM Coronel, BCN President Rosales, and Trade Advisor Solorzano covered a wide range of macro/micro-economic issues, focusing on areas where A/S Sullivan's concept of "Total Economic Engagement" (TEE)* integrating and coordinating all USG economic tools such as CAFTA, MCC, USAID programs, and debt relief -- could best help Nicaragua. A/S Sullivan emphasized the importance of developing the private sector as part of poverty alleviation efforts. He stated that market integration, private sector growth, and job creation are all linked and will produce the long-term results that Nicaragua desires. MCC Deputy CEO Rodney Bent focused on the importance of sustainability in all USG efforts in the region.

14. (SBU) BCN President Rosales emphasized how Nicaragua's agenda of economic growth, strengthening democracy, and regional stability coincided with U.S. objectives. He posited that Nicaragua's need to create jobs and reduce poverty required some flexibility in the terms of the new PRGF program the GON was about to negotiate with the IMF. He requested USG assistance in getting some flexibility from the IFIs. Rosales also raised the structural and budgetary limitations that Nicaragua's foreign debt placed on the GON's ability to fight poverty. He requested continued USG support for Nicaragua's efforts to get forgiveness on its non-Paris Club bilateral debt and completion of its commercial debt buy-back program.

15. (SBU) VFM Coronel was particularly taken by Total Economic Engagement and envisioned using it to support the government's programs to fight rural poverty and create "social transformation." He briefly mentioned plans to fight poverty and "empower women" by giving them "property titles, a cow, several pigs, and chickens." His focus was on meeting the broader social needs "because you do not want more Nicaraguans flowing into the U.S." When pressed for exact details, Coronel responded that Nicaragua has a clear vision which will require "understanding from the international community." According to him the plan has three strategic areas: energy security, food security (irrigation of 300,000 acres on the pacific coast for agriculture), and building a new canal through Nicaragua. (Note: In the 1980s, Coronel was in charge of "Strategic Projects." When he left office in 1990, he left behind a long list of unfinished "white elephant" projects. End note.)

16. (SBU) MIFIC Minister Brenes offered concrete ideas on economic development. Citing his experiences as a businessman in Matagalpa (in Nicaragua's mountainous northern region), Brenes focused on the need to make CAFTA visible and tangible for small and medium businesses in rural areas of the country. He saw an opportunity to tie private sector development to municipal development, through public consultation, so the right sectors are chosen for donor and government projects. He envisioned USAID and Millennium Challenge Corporation (MCC) trade capacity building for small and medium enterprises (SME) in the rural regions done through existing institutions like the local chambers of commerce. Since the chambers are permanent, they then become permanent resources on CAFTA for local producers. Brenes was particularly laudatory of the MCC model, saying that there "needed to be more of it," perhaps with expansion to the northern departments.

17. (SBU) A/S Sullivan reiterated that the U.S. had a common outlook on many of the issues the GON officials raised, including increasing Nicaraguan and outside investment, and creating a better business climate to spur economic growth and poverty reduction. He emphasized our Total Economic Engagement partnership that featured an array of U.S. economic tools from CAFTA to MCC, OPIC and other programs. To maximize the benefits of USG programs, the GON needed to concentrate on microeconomic reform measures in business climate, taxes, and sanctity of contracts. A/S Sullivan also suggested future cooperation on biofuels, where President Bush made a major commitment in his State of the Union address, and where both countries share common energy security needs. When A/S Sullivan inquired about whether the people of Nicaragua were aware of the opportunities CAFTA presents, the ministers suggested that the poor were not informed and that the further from Managua one travels, the less people knew about CAFTA. A/S Sullivan stressed the need to integrate small farmers and businesses into the global economy through CAFTA.

MFA: "Eager to Increase Economic Engagement"

18. (SBU) During an American Chamber of Commerce hosted lunch, FM Santos expressed strong interest in continued U.S. public and private engagement in Nicaragua. He praised CAFTA for opening the U.S. market to Nicaraguan goods and enticing

foreign investors to the country, but added that the "asymmetries" in the agreement still need to be addressed. (Note: The CAFTA "asymmetries" the Ortega administration often cites never come with examples and seem to refer vaguely to the different sizes of national markets and U.S. agriculture subsidies. End note.) Santos cited China as an example of how to help SMEs. There, according to Santos, large companies are required to reach out to SMEs and train them to become part of the service provider chain. Santos agreed with A/S Sullivan that Nicaragua needs to reduce its bureaucracy and regulations affecting the registration/establishment of businesses. Santos also thought that while the Venezuelan market is not a total solution for Nicaragua, it offers options, especially for energy.

Key Areas for Agricultural Development

¶9. (U) MAGFOR Minister Bucardo's strategic focus was on food production (opening markets and increasing volume), coffee (addressing the lack of upkeep in the coffee plantations), and cattle. Bucardo stated that 90% of ranchers are SMEs, responsible for almost 500,000 direct and indirect jobs in Nicaragua. He added that Nicaraguan beef and dairy are very competitive and requested USG assistance to further improve production. He pointed to the USDA sanitary-phytosanitary programs in Nicaragua as examples of very successful assistance and requested they be enhanced. (Note: There are two aspects to the program, an APHIS component and a Food For Progress component which is funded through 2008. Ironically, at the same time Bucardo was lauding our SPS cooperation, he was removing APHIS' prime interlocutor and technical specialist in these programs, Dr. Denis Salgado. End Note.) He requested USG assistance in restarting a cooperation program on organic beef, improving cattle feed, and establishing genetic improvement and artificial insemination programs.

¶10. (U) MIFIC Minister Brenes pointed to bottlenecks in milk and grain storage as possible areas for donor assistance. Limited chilling capacity for milk and the small number of usable silos results in producers having to sell their product quickly to the first available buyer to avoid spoilage. Donor assistance in creating more storage capacity in these two areas would enable farmers to increase production and hold their product until market prices are more favorable.

Comment

¶11. (SBU) These meetings demonstrated an understanding among Ortega's economic cabinet of the important role the USG continues to play in Nicaragua, despite President Ortega's more negative rhetoric. End Comment.

¶12. (U) A/S Sullivan cleared on this cable.
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